



**REPORT ON EXAMINATION AS TO THE CONDITION OF  
AMERICAN MILLENNIUM INSURANCE COMPANY  
HOBOKEN, NEW JERSEY 07030**

**AT DECEMBER 31, 2007**

**NAIC COMPANY CODE 26140  
NAIC GROUP CODE 0000**

**F I L E D**

**JUN 23 2009**

**COMMISSIONER  
NJ DEPT OF BANKING & INSURANCE**

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**State of New Jersey**  
**DEPARTMENT OF BANKING AND INSURANCE**  
**OFFICE OF SOLVENCY REGULATION**  
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STEVEN M. GOLDMAN  
*Commissioner*

October 17, 2008

Honorable Steven M. Goldman  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the provisions of N.J.S.A. 17:23-22, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

**AMERICAN MILLENNIUM INSURANCE COMPANY**  
**5 MARINE VIEW PLAZA**  
**HOBOKEN, NJ 07030**  
**N.A.I.C. COMPANY CODE 26140**  
**EXAMINATION WARRANT P&C-07**

a property and liability insurance organization authorized to transact business in the State of New Jersey, and herein referred to in this report as "AMIC," "American Millennium," or "Company."

**SCOPE OF EXAMINATION**

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination covered the three-year period from December 31, 2004, the date of the last examination, through December 31, 2007, and included material transactions and/or significant events occurring

subsequent to the examination date. During this three-year period, the Company's assets decreased from \$10,668,407 to \$8,576,905, liabilities decreased from \$6,859,325 to \$4,381,904, and surplus as regards to policyholders increased from \$4,002,555 to \$4,195,001.

The procedures outlined in the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("NAIC Handbook") and the NJDOBI Field Examination Handbook ("NJDOBI Handbook") were used as guides for the examination of the various accounts and records and included the use of direct verification as well as numerous tests, some complete and others on a partial basis. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control and accounting methods, the nature and size of each account and its relative importance to solvency.

Based upon examination review, no accounts were determined to require special emphasis. The following accounts were assigned standard emphasis as defined in the NJDOBI Handbook:

- Bonds, Cash and Short-Term Investments
- Agents' Balances or Uncollected Premiums
- Aggregate Write-ins
- Losses and Loss Adjustment Expenses
- Funds Held by or Deposited with Reinsurers
- Other Expenses
- Current Federal and Foreign Income Taxes
- Unearned Premiums
- Ceded Reinsurance Premiums Payable

The remaining balance sheet accounts were assigned either reduced emphasis or analytical review status. Additional areas reviewed were in part as follows:

- Company History
- Management & Control
- Holding Company System
- Statutory Deposits
- Insurance Products and Related Services
- Fidelity Bond and Other Insurance Coverages
- Accounts and Records
- Continuity of Operations

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments will be made on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

This examination was conducted at the Company's statutory home office located at 5 Marine View Plaza, Hoboken, New Jersey 07030.

### **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

The following is a summary of the Company's response to the recommendations of the previous examination report dated as of December 31, 2004:

#### **I. Management & Control**

1. 2001 Exam Findings. It was recommended in the *last two examination reports* that AMIC record in its minutes the discussion, evaluation and approval of investments in all its Board meetings during the term of transaction. The audit committee should be recorded in writing to insure the compliance with N.J.S.A. 17:27A-4(d)(4).

Examination Review: The Company complied with this recommendation.

2. Corporate Records. It was recommended that the Board provide signed affidavits from each member evidencing receipt and review of the prior exam report when such becomes available, and keep a record of Board deliberations concerning assessments and conclusions arrived at.

Examination Review: The Company complied with this recommendation.

## **II. Holding Company System**

3. 2001 Exam Findings. It was recommended in the *last two examination reports* that the Company file Form D with NJDOBI, Office of Solvency Regulation at least 30 days prior to entering into any future transactions with affiliates in compliance with N.J.S.A. 17:27A-4(a)(2).

Examination Review: The Company complied with this recommendation.

4. 2001 Exam Findings. It was recommended in the *last two examination reports* that any receivable from Parent, Subsidiary or Affiliates be collected in a timelier manner.

Examination Review: The Company complied with this recommendation.

5. Related Party Filings. It was recommended that the Company comply with N.J.S.A. 17:27 A-3, paragraph 5, section b, and list affiliated transactions in Schedule Y Part 2 (*Summary of Insurer's Transactions with Any Affiliates*) in future filings of the Annual Statement.

Examination Review: The Company *did not comply* with this recommendation and the exception is again addressed under the caption '*Holding Company System*' of this report.

## **III. Insurance Products and Related Services**

6. Third Party Contracts. It was recommended that the Company obtain written contracts between itself and its reinsurance intermediary-brokers in order to comply with N.J.S.A. 17:22E-6 (a), (b), (c), (d) and (e).

Examination Review: The Company *did not comply* with this recommendation and this matter is again covered under the section heading '*Insurance Products and Related Services*.'

7. Producer-Controlled Reports. It was recommended that the Company declare its producer-controlled status when filing producer-controlled reports.

Examination Review: The Company complied with this recommendation.

## **III. Fidelity Bond and Other Insurance Coverages**

8. Fidelity Bond. It was recommended that the Company obtain fidelity bond coverage in order to meet the minimum requirement of \$125,000 as recommended by the NAIC.

Examination Review: The Company complied with this recommendation.

#### IV. Notes to Financial Statements

9. Bonds. It was recommended that the Company amend its custodial/safekeeping agreement with Bank of America, NA, to include satisfactory indemnification, safeguard and controls in accord with specific requirements of Section IV, paragraph J(2) of the NAIC Handbook.

Examination Review: The Company complied with this recommendation.

10. Cash and Short Term Investments. It was recommended that the Company formulate and implement procedures explaining the handling of escheatable funds, and institute a system to account for their existence and clearance.

Examination Review: The Company complied with this recommendation.

11. Uncollected Premiums. It was recommended that the Company utilize an aging schedule to assist them in identifying non-admitted items on its receivables inventory.

Examination Review: The Company complied with this recommendation.

12. Losses and LAEs. It was recommended that the Company continue to monitor its loss data and ensure that the actuarial data and Schedule P are in agreement.

Examination Review: The Company complied with this recommendation.

13. Taxes, Licenses, and Fees. It was recommended that the Company make provisions for the accrual of NJDOBI examination costs in anticipation of forthcoming audits, in conformity with the requirements of **SSAP No. 5** (*Liabilities, Contingencies and Impairments of Assets*), while taking a conservative approach in their estimation.

Examination Review: The Company complied with this recommendation.

#### COMPANY HISTORY

The Company was incorporated on March 6, 1986, under the name "Motor Club Fire and Casualty Company" and commenced business operations on September 1, 1986. On May 1988, the Company changed its name to "MCA Fire and Casualty Company" (MCA) and again to "Property Casualty Co. of MCA" (PCC of MCA) on September 1988. On February 11, 1999, Martin Beitler, President of AMIC, purchased all of the outstanding shares of PCC of MCA, contributing \$750,000 in capital, and changed the Company's name from PCC of MCA to American Millennium Insurance Company.

The original Certificate of Incorporation of the Company dated January 24, 1986, was verified and approved by the Commissioner of Banking and Insurance on the 6th day of March 1986. It was filed with the Somerset County Clerk and the Department on February 14, 1986. On July 1, 1999, AMIC executed a Certificate of Amendment to effect a revision of the First, Second, Third and Fifth articles of incorporation. The Certificate was filed by NJDOBI on August 25, 1999.

The changes are as follows:

- The first article changed the Company name to American Millennium Insurance Company.
- The second article changed the Company's principal office to 1050 Wall Street West, Suite 610, in the City of Lyndhurst, County of Bergen and State of New Jersey.

- The third article enabled the Company to write insurance as specified in paragraphs "b" and "e" of N.J.S.A. 17:17-1 et seq., i.e. property and casualty. See Consent Order below for AMIC's authority in writing various lines of business.
- The fifth article states the total authorized capital stock of the Company is \$1,200,000, consisting of 120,000 shares of common stock at a par value of \$10.00 each.

An amendment to the Certificate of Incorporation executed on February 29, 2000, and filed with the Department on April 19, 2000, changed the statutory address of the Company to ***5 Marine View Plaza, Suite 201, Hoboken, New Jersey 07030***, the current official home address of the Company.

Consent Order C01-113 (effective October 10, 2001) was executed on October 30, 2001, between James Gartland, AMIC's then secretary and general counsel, and Donald Bryan, NJDOBI's then acting insurance commissioner. The Order stated that "AMIC may commence writing the insurance business set forth in its certificate of authority, namely ocean marine, inland marine, automobile physical damage, aircraft physical damage, workers' compensation and employers' liability, automobile liability (bodily injury) automobile liability (property damage) and other liability insurance business in New Jersey, subject to the following conditions:

1. "AMIC shall at all times maintain its minimum capital and surplus at \$2,700,000 or higher; and
2. "AMIC shall at all times maintain its Net Premiums written to Surplus so that it will not exceed the ratio of 2 to 1; and
3. "AMIC shall at all times maintain its Gross Premiums Written to Surplus so that it will not exceed the ratio of 4 to 1; and
4. "AMIC shall not permit its net retention on any one risk to exceed 3 percent of AMIC's net assets; and
5. "AMIC shall submit quarterly information summaries of the Company's programs in the formats attached hereto as provided in Exhibit B and C, with supplemented narrative explanations of significant variances; and
6. "All required rate and form filings shall be submitted by AMIC to the Property and Casualty Section of the Department and shall be approved before such filings are utilized."

An amendment to Condition 4 of Consent Order No. C01-113 in a Department letter dated May 1, 2002, permitted the Company to increase its net retention on any one risk from three (3) to four (4) percent of its net assets.

The registered agent in charge, upon whom process may be served, is James Gartland, General Counsel.

## **INSURANCE PRODUCTS AND RELATED SERVICES**

### **Territory and Plan of Operation**

American Millennium is a stock insurance company that underwrites, manages, and markets primary property and casualty insurance and reinsurance programs aimed at small niche, underserved markets ignored by most of the larger program writers. The Company's main bulk of business is in the commercial

auto liability segment with an emphasis on used car dealers, tow truck operations, taxi liability, and non-fleet commercial automobile for utility vans, steps vans, box trucks and, on a restricted basis, dump trucks. At December 31, 2007, it represented approximately 91% of total premiums written, with most of the revenue stemming from the mobile assisted vehicles (ambulettes) program, the Company's major business product that generated \$1,610,553 in direct income at the close of business. Though the Company entered the workers' compensation market in March 2001, AMIC discontinued the program on September 30, 2003, due to the high cost of reinsurance, and currently is under a claims runoff. The Company is also considering writing Divorce Insurance policies, a novel product designed to protect the alimony and child support payments due the supported spouse in a divorce agreement in the event of the involuntary unemployment of the supporting spouse. To date, no such policies have yet been issued.

The Company has a long-term business plan with a marketing strategy focused in providing coverage to selected small businesses. Products are marketed through seventy-three (73) independent brokers and agents, which are selected based on their business background, book of business, and effective promotion of the products that meet the targeted classes of business. The rest of AMIC's business is generated through its affiliate, First Brokers, LLC, which was responsible for producing 15% of the premiums at year-end 2007. The Company does not utilize the services of managing general agents.

The Company is licensed in the States of New Jersey, Pennsylvania, District of Columbia, and Oklahoma. However, business is primarily written in New Jersey and Pennsylvania. The Company is also planning to expand its business in Oklahoma and Texas.

American Millenium's main administrative office, headquartered in Hoboken, New Jersey, operates as a full service center providing underwriting, claims, customer service and management functions. The Company does not have employees but has engaged Beitler Services, Inc., an affiliate, to provide services pursuant to an Expense Allocation Agreement, effective March 1, 2006, the review of which is provided under the caption '*Holding Company System*' of this report.

It was determined that the Company is producer controlled and therefore subject to the provisions of N.J.S.A. 17:22D-1 et seq. The Company filed producer-controlled reports for each of the three years of the examination period in compliance with N.J.A.C. 11:2-37.4. First Brokers, LLC, an affiliated member of the holding company system, was identified as the controlling producer. It was noted, however, that no written contract existed between the controlling producer and the Company in violation of N.J.S.A. 17:22D-3c.

The percentage of business placed by First Brokers exceeded the 5% threshold of N.J.S.A. 17:22D, section 3a, thus subjecting the Company to the stipulations of section 3c, which require the establishment of a contract between a controlling producer and a controlled insurer.

In a letter to the Department, dated June 14, 2007, the Company appealed to N.J.S.A. 17:27A-4 to claim an exemption from related party statutory filing obligations based on the materiality standards set forth in subsection a, paragraphs (1) and (2). However, it is noted that holding company statutory provisions cannot supersede or displace statutory provisions relating to producer/insurer relationships, for N.J.S.A. 17:22D-2b specifically states that (emphasis added)

*"The provisions of P.L.1970, c.22 (C.17:27A-1 et seq.), to the extent they are not superseded by this act, shall continue to apply to all parties within holding company systems subject to this act."*

Therefore, insofar as N.J.S.A. 17:22D-1 et seq. overrides or takes precedence over N.J.S.A. 17:27A-1 et seq. when it comes to affiliates that are controlling producers, it is recommended that the Company execute a contract with its controlling producer in conformity with N.J.S.A. 17:22D-3.



During the examination period, the Company employed the services of three (3) reinsurance intermediary-brokers identified as follows:

<u>Reinsurance Intermediary</u>	<u>License No.</u>	<u>State</u>
Ballantyne, McKean & Sullivan, Ltd ...	2360740 .....	London, U.K.
ESR Insurance Services, Ltd. ....	FSA 308303 ...	London, U.K.
John .B Collins Associates Ltd. ....	RI 20011404 ...	Minnesota

These brokers are responsible for securing reinsurance contracts and placing reinsurance cessions in behalf of the Company. It is noted that none of the intermediaries are licensed in the State of New Jersey, which is mandated by N.J.S.A. 17:22E-2a. John B. Collins Associates Ltd. is the only non-resident broker in possession of a valid Reinsurance Intermediary Authority granted by an accredited state with producer licensing laws substantially similar to and comparable with Title 17:22E. This intermediary is therefore authorized to conduct business in the State of New Jersey consistent with Section 3A(2) of the NAIC Reinsurance Intermediary Model Act and with NJDOBI guidelines.

The remaining intermediary-brokers reside in a foreign nation-state that is not subject to or accredited by the NAIC, and with laws dissimilar to the State of New Jersey. Hence, the Company is in violation of N.J.S.A. 17:22E-9, which prohibits a domestic insurer from engaging the services of a non-resident reinsurance intermediary that is not duly authorized by the Commissioner of the Department.

It is therefore recommended that the Company comply with N.J.S.A. 17:22E, sections 2 and 9, and utilize the services of authorized reinsurance intermediaries pursuant to section 4 of the statute.

It is further noted that the Company does not have written contracts in place with these intermediaries commensurate with N.J.S.A. 17:22E-6. This is an exception recurring as of the last exam date.

In lieu of a standard contract, the Company provided letters signed by two of the three intermediaries accepting and agreeing with the applicable law, with copies of the relevant statute attached to the individualized letters. However, these types of documents have not been accepted for purposes of this examination because they

- (1) do not embody all the parameters and features intrinsic to a valid and properly executed contract, including the identification of the parties, delineation of roles and responsibilities, term or duration of the agreement, and termination clause
- (2) are in violation of section 4 of the NAIC Reinsurance Intermediary Model Act (Model No. 790)
- (3) do not follow the format and contract provisions prescribed by Section 6, Part XI, paragraph B of the 2008 NAIC Handbook

It is therefore again recommended that the Company obtain written contracts between itself and its reinsurance intermediary-brokers in agreement with N.J.S.A. 17:22E-6 and, additionally, Section 6, Part XI, paragraph B of the 2008 NAIC Handbook.

#### **Policy Forms and Underwriting Practices**

AMIC is approved to write the following ten (10) policy forms:

1. Cal (Commercial Auto)
2. Commercial General Liability Declaration
3. Used Auto Dealer (UAD)

4. Tow Truck
5. Taxi Commercial Auto Coverage part Business Auto Declaration (Taxi)
6. XCAL (Excess Commercial Auto)
7. MAV (Ambulette) Commercial Auto
8. XMAV (Excess Ambulette)
9. Limousine Commercial Auto Policy
10. PH (Physical Damage)

The Company's has six (6) LOB which are listed below:

1. Taxi Liability
2. Used Auto Dealers
3. Commercial Trucks
4. Tow Trucks
5. MAV (Ambulette)
6. Limousines

The Company policy for underwriting a new or existing account is to follow their underwriting guidelines, which AMIC feels are an effective way to communicate the requirements to the agents and principal. These guidelines and procedures, in general and in part, are summarized below for three selected programs:

I. New Jersey Taxi Liability:

- 1) Driver must hold a valid New Jersey Drivers License for a minimum of three (3) years.
- 2) Driver must be at least 23 years old and not older than 65 years old.  
NOTE: Between the ages of 65 and 70, each year, first pass a physical and eye exam and be subject to a possible surcharge.
- 3) Driver must have a minimum of three (3) years driving experience driving a taxi.
- 4) Driver convicted of a "Major Violation" in the past three (3) years will be declined.
- 5) Driver convicted of six (6) or more points for the past three (3) years will be declined.
- 6) Driver who has had two (2) Bodily Injury Accidents - at fault, in the past twelve (12) months will be declined.
- 7) Motor vehicular registration on all drivers should be received, and date within ten (10) days prior to the effective date with the policy should be included with the application.
- 8) Driver will provide losses for the past three (3) years for each applicant - amount paid, amount outstanding on a per accident basis.

II. Ambulette Liability Program:

- 1) Objectives - provide to the "Ambulette" operator automobile liability coverage with the following limits:
  - \$500,000 CSL - Bodily Injury/ Property Damage
  - \$35,000 CSL - Uninsured/underinsured

- No P.I.P coverage is provided as it is not required

2) Driver/Vehicle Requirements:

- Must be between the age of twenty-five (25) and sixty-five (65) years old
- Three (3) years minimum driving experience
- No more than one at-fault accident in the past three (3) years
- No more than one speeding citation (twenty (20) miles or more over the speed limits) in the past two (2) years
- Has not in the past three (3) years, been convicted of
  - (i) DWI
  - (ii) Leaving the scene of an accident
  - (iii) Insurance fraud
  - (iv) Fleeing from a police officer
  - (v) Manslaughter resulting from the operation of a vehicle
  - (vi) Felony involving a motor vehicle
  - (vii) Driving while license is suspended or revoked
- Has not in the past five (5) years, been convicted of driving under the influence of a control substance

III. Tow Truck Operators Program

Tow trucks are rated in the same manner as a regular truck but represent a unique segment of the market. Tow trucks are generally lighter in Gross Vehicular Weight (GVM) and drive at more conservative speeds within a restricted radius for short periods of time. This mitigates such issues as driver tiredness and possibilities of catastrophic accidents. Additionally, these vehicles usually have flashing lights that are highly visible and treated as emergency vehicles. The specific Tow Truck experience is superior because they travel at shorter distances and slower speeds. Tow trucks approach accident scenes where motorists are already alert to traffic problems. They have flashing lights to warn of their approach. Some of the driver requirements are listed below:

- 1) Drivers must be between the age of twenty-one (21) and seventy (70) with a valid New Jersey Automobile license for the type of vehicle they will be driving for at least three (3) years.
- 2) Drivers are to be declined if they have been convicted in the past five (5) years of insurance fraud, leaving the scene of an accident and using a vehicle in the commission of a felony.
- 3) Drivers are to submit a written police report to the Company for AMIC's validation of a "not at fault" accident.
- 4) Drivers with more than three (3) moving violations in the past three (3) years are to be declined.

**Advertising and Sales Material**

A review and sampling of advertisement materials submitted by the Company determined AMIC to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

## Treatment of Policyholders

A review was made of the Company's complaint register for grievances filed during the period of examination.

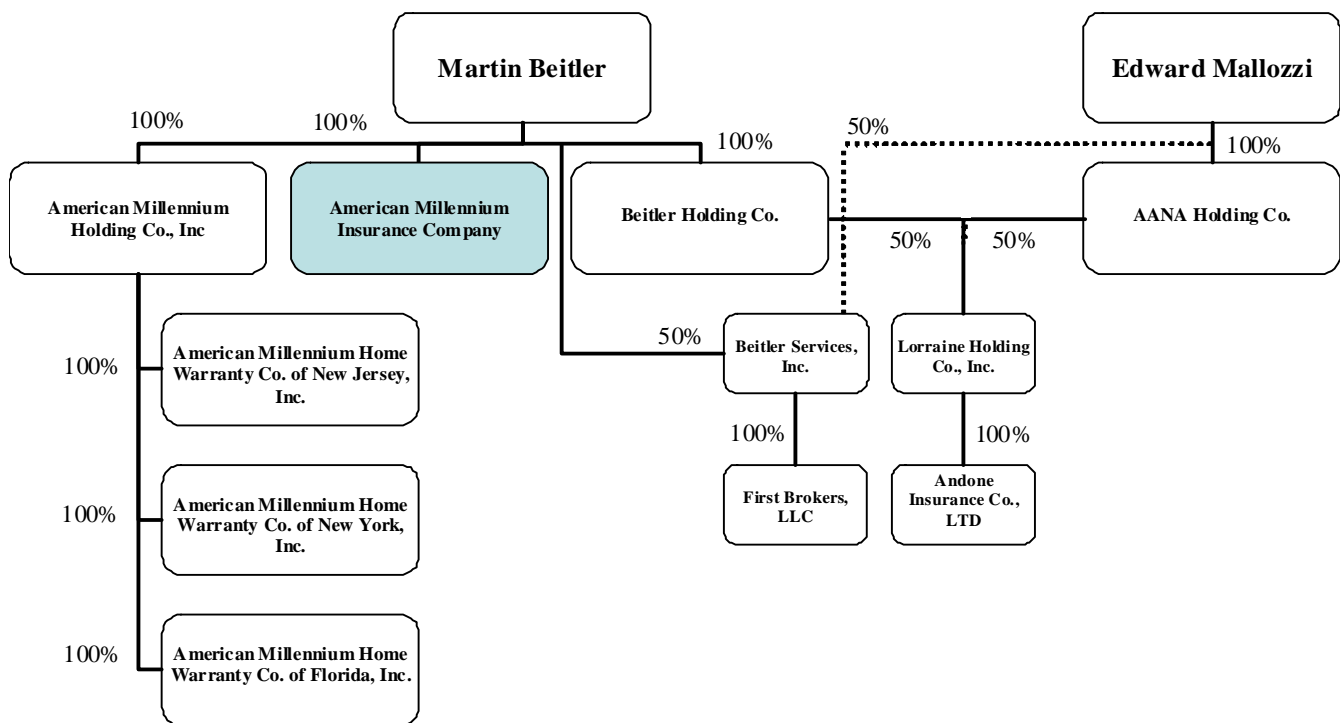
The inspection of these files determined that the Company was in compliance with N.J.S.A. 17:29B-4(10), which requires the maintenance of a complete record of all written complaints.

## HOLDING COMPANY SYSTEM

### Affiliated Companies

AMIC, a member of a holding company system as defined in N.J.S.A. 17:27A-1, is a controlled subsidiary of Martin Beitler, President and full owner of all the outstanding shares of the Company. The Company has filed registration statements in compliance with N.J.S.A. 17:27A-3.

The following chart illustrates the interrelationship of the particular companies within the holding company system as of December 31, 2007:



A summary of the operations of some of the members of the holding company system is outlined below:

Beitler Services, Inc. ("BSI") provides underwriting, administrative and claim services to members of the combined group of the holding company system.

First Brokers, LLC ("FBL") is an insurance brokerage organization providing retail insurance facility to generate commercial auto business for AMIC and other insurance carriers.

Andone Insurance Company, Ltd. ("AIC") is a foreign company licensed to operate in Bermuda that provides extended warranty and service contract insurance coverage.

The Home Warranty Companies provide home warranty coverage placed through unrelated third parties.

### **Inter-Company Agreements**

The Company entered into an expense allocation agreement with BSI, dated December 12, 2005, which was non-disapproved by the Department on February 10, 2006. Effective March 1, 2006, the agreement stipulates that one or more of the parties will pay for expenses and provide services to the other party on an actual, allocable cost basis. Expenses attributable to the costs incurred in the business activities of both parties shall be divided and paid for by both parties based on actual usage. Salary and travel expenses for services performed by BSI personnel shall be based on percentage of time spent. All apportionments will follow the most recent survey approved by the parties. Unallocated loss adjustment expenses, including supervision of outside independent third party workers' compensation claims administrators shall be included in the services provided by BSI. The agreement continues on an annual basis unless appropriately terminated.

The Company reported \$1,345,684 in Schedule Y Part 2 of the annual statement reflecting payment for the expense allocations between AMIC and BSI, in compliance with prior examination report recommendations. However, AMIC failed to report the amount of business it received from FBL, which produced \$609,453 in premiums during calendar year 2007 in behalf of the Company. This transaction, and related commissions, was not reported in Schedule Y.

It is therefore again recommended that the Company list all affiliated transactions in future filings of Schedule Y Part 2 of the annual statement.

## **MANAGEMENT & CONTROL**

### **Stockholders**

The by-laws of American Millennium, congruent with N.J.S.A. 14A:5-4, state that the Annual Meeting of the shareholders shall be held upon not less than ten nor more than sixty days written notice of the time, place, and purposes of the meeting on the 11th day of the month of February of each year or at such other time and place as shall be specified in the notice of meeting, in order to elect directors and transact such other business as shall come before the meeting.

Martin Beitler, as the sole shareholder of AMIC, held meetings via the execution of Consent and Waiver Notices for the election of new Board members during the three-year period ending December 31, 2007, in conformity with the rules of the Company's by-laws.

### **Board of Directors**

The Company's by-laws, congruent with N.J.S.A. 14A:6-2 et seq., specify that the Board shall consist of no more than five (5) and no less than one (1) members. The precise number shall be set by the directors or by the shareholders at each annual meeting before the election of directors. Each director shall be elected by the shareholders at each annual meeting and shall hold office until that director's successor shall have been elected and qualified.

The duly elected members of the Board serving at December 31, 2007, were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Martin Beitler Edgewater, NJ	President AMIC/Beitler Services, Inc.
Edward J. Mallozzi Glen Head, NY	Vice President/Treasurer AMIC/Beitler Services, Inc.
Ronald H. Labenski Nutley, NJ	Chief Reinsurance Officer Frontier Insurance Company

Regular meetings of the Board shall be held without notice immediately following and at the same place as the annual shareholders' meeting for the purposes of electing officers and conducting such other business as may come before the meeting. The Board, by resolution, may provide for additional regular meetings, which may be held without notice, except to members not present at the time of the adoption of the resolution. Special meetings of the Board may be called at any time by the president or by directors for any purpose. Fifty-one percent (51%) of the entire Board shall constitute a quorum for the transaction of business.

Any vacancy in the Board may be filled by the affirmative vote of a majority of the remaining directors, even though less than a quorum of the Board, or by a sole remaining director. Any director may be removed for cause, or without cause unless otherwise provided in the certificate of incorporation, by a majority vote of shareholders.

The by-laws of American Millennium *do not* provide for the appointment of committees, which is required under N.J.S.A. 17:27A-4d(4), nor does the Company have charters or guidelines in place delineating their composition, function and objectives. However, the Company has established one committee during the examination period for compliance purposes. The member(s) of the committee serving at December 31, 2007, were as follows:

Audit and Compensation Committee

Ronald H. Labenski

According to the Company's response to the NAIC Exhibit B questionnaire extracted from the NAIC Handbook, the Audit Committee is responsible for recommending to the Board the approval of all auditing services and the establishment of procedures relating to the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters.

A review of corporate board minutes applicable to the examination period indicated that Directors held their regular, annual and special meetings in accordance with the Company's by-laws, for the purpose of transacting business, nominating officers, and electing directors. The minutes indicated that all directors attended these meetings.

For the three-year period under examination, the Board held twelve (12) meetings and nine (9) committee meetings, key discussions of which were reviewed under the '*Corporate Records*' section below.

The Board of Directors location for all correspondence and meetings is the AMIC home office, 5 Marine View Plaza, Suite 201, Hoboken, New Jersey 07030.

Officers

The by-laws, congruent with N.J.S.A. 14A:6-15, stipulate that during its regular meeting following the annual meeting of shareholders, the Board shall elect a president, a treasurer, a secretary and such other

officers, including one or more vice presidents, as it shall deem necessary. One person may hold two or more offices.

The elected officers of the Company serving at December 31, 2007, were as follows:

<u>Name</u>	<u>Office(s)</u>
Martin Beitler	President
Edward J. Mallozzi	Vice President, Treasurer
Stephen T. List	Secretary

The president shall be chief executive officer of the Company. Subject only to the authority of the Board, he shall have general charge and supervision over, and responsibility for, the business affairs of the Company.

The vice president shall perform such duties and have such authority as from time to time may be delegated to him by the president or by the Board. In the absence of the president or in the event of his death, inability, or refusal to act, the vice president shall perform the duties and be vested with the authority of the president.

The treasurer shall have custody of the funds and securities of the Company and shall keep or cause to be kept regular books of account for the Company. He or she shall perform such other duties and possess such other powers as are incidental to that office or as shall be assigned by the president or the Board.

The secretary shall cause notices of all meetings to be served as prescribed in the by-laws and shall keep or cause to be kept the minutes of all meetings of the shareholders and the Board. He or she shall have the charge of the seal of the Company and shall perform such other duties and possess such other powers as are incident to that office or as are assigned by the president of the Board.

### **Corporate Records**

A review of the minutes of the Company's shareholders, board and committee meetings indicated that transactions and events were adequately authorized and supported, in accordance with the provisions of the Company's by-laws. The Board's review and approval of the previous examination report, key investment decisions, and other strategically relevant and important matters were duly noted and documented in its minutes. No changes were made to the by-laws during the examination period.

### **Policy on Conflicts of Interest**

During the examination period, the Company developed a formal program for the identification of circumstances which would constitute a conflict of interest between AMIC and an officer or employee thereof. Under this program, directors and officers are required to complete questionnaires and submit signed disclosure statements in connection with AMIC's conflict of interest policy.

AMIC provided completed conflict of interest questionnaires for all the years under examination. No material conflicts were noted. However, it was noted that the disclosure forms combined all three years into a single statement. It is further noted that this method leaves the Company vulnerable to missing an opportunity for addressing potential conflicts that may arise during any given year, as is the case with the admission of a new outside director or the changing financial interests of inside directors and officers.

It is therefore recommended that the Company keep its conflicts of interest current for all its employees, officers, and directors on an annual basis.

### **Dividends to Stockholders**

No dividends were declared or paid during the examination period.

## **ACCOUNTS AND RECORDS**

Premiums and loss administration is performed by an automated system called the "Predator System." The system is not integrated into the general ledger accounting system. All financial transactions are inputted into QuickBooks, a financial software system that enables the user to print out the general ledger, trial balance and journal transactions for specific reporting periods.

Premiums are for the most part broker generated/billed business. The broker or the insured directly sends AMIC approximately 30% of the premiums as a deposit. AMIC enters the transaction into QuickBooks which creates an account receivable. Unearned premiums are calculated by the Predator System using the daily pro-rata method. A third party administrator, Risk Management Planning Group, Inc., handles losses for the run off business for the Workers' Compensation program.

The Company maintains an investment custodial account with Bank of America N.A. in Hackensack, New Jersey. Interest on fixed maturities is credited to income as it accrues on principal amounts outstanding, adjusted for amortization of premiums and discounts computed utilizing the effective interest rate method. Premium and discounts on US Agency securities are amortized using anticipated prepayments. Cash and cash equivalents are carried at cost, which approximates market value. The Company considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents. Columbia Management Group, a subsidiary of the Bank of America makes the investment management decisions through a Corporate Resolution Investment Management Agreement dated March 3, 1999.

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by Ross & Company, CPA PLLC, and an audited financial report was filed with the Department. The report contains a synopsis of the major audit activities and results in the corporate area.

## **EMPLOYEE WELFARE AND BENEFIT PLANS**

The Company does not have employees and therefore does not provide retirement, deferred compensation and other such benefits. AMIC receives administrative and management services through an inter-company agreement with Beitler Services, Inc.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

AMIC had the following insurance coverages in effect as of December 31, 2007:

- Business Personal Property
- Money and Securities (inside and outside)
- Computer and Media
- Limited Fungus, Bacteria, or Virus
- Business Income and Extra Expense
- Equipment Breakdown
- Identity Recovery
- Management Liability
- Employment Practices Liability

The Company is excluded from general business liability protection. Coverage is maintained by Beitler Services, Inc. ("BSI"), an affiliate conducting business in the same property and location that AMIC operates under.

In addition, the Company is covered by blanket fidelity insurance in the amount of \$125,000 (each occurrence), also provided through the holding company system via BSI, the second insured name in the



policy. AMIC receives staff/personnel services from BSI through a cost-sharing agreement, since AMIC has no employees. Only employees that handle cash are bonded. A review of the NAIC requirement guidelines for minimum amount of fidelity insurance indicated that the Company is adequately protected.

### **REINSURANCE**

The Company had the following reinsurance agreements in effect as of the examination period:

#### **Assumed**

The Company's assumed reinsurance reported 10% QS on Commercial Auto Liability effective March 1, 2007, with Rutgers Casualty Insurance Company, 10% of \$1,000,000 policy limits, \$100,000 per occurrence.

#### **Ceded**

1) 70% Quota Share reinsurance for Tow Truck Operators, Used Car Dealers and/or Ambulettes with Imagine International Reinsurance Ltd. effective July 7, 2007, on a \$1,000,000 per occurrence, \$150,000 net retention, and \$700K reinsurer limit per occurrence up to 120%;

2) 50% quota share reinsurance for Commercial Auto and General Liability with Rutgers Casualty Insurance Company effective January 1, 2008, \$300,000 policy limits, \$150,000 Retention, \$150,000 reinsurance limit per occurrence up to 110%; and

3) Excess of Loss reinsurance Limousine Program effective May 20, 2007, with Aspen Re (50%), Lloyds - Catlin Synd. (25%), and Lloyds - Faraday Synd. (25%), \$1,200,000 excess \$300,000 policy limits, \$300,000 retention, \$1,200,000 reinsurer limit up to 250% of ceded GWP or \$5,500,000 per occurrence.

Reinsurance contracts were reviewed for contract coverage, period covered, reporting settling requirements, ceding commissions, offset clause, termination provision, commutation clause, arbitration clause, insolvency clause and transfer of risk.

### **CONTINUITY OF OPERATIONS**

The existing backup procedures and security precautions include the following systems:

- Backup procedures
- Failover Precautions
- File Backup of Mobile Machines (laptops)
- Critical Applications
- Disaster Recovery Contacts
- Firewall and Anti-Virus Support
- Alternate Location

The Company provided what purports to be a log of restored files, which appears to support the existence of successful data backup and restoration procedures at the company. However, this does not support their ability to recover their full system(s) in an event, nor does it document existence of a full Business Continuity Plan. It is therefore recommended that the Company conduct and document regular Business Continuity Tests, including full restoration of their computer systems and files.

## **FINANCIAL STATEMENTS**

Financial statements and other exhibits are presented as listed below:

- Exhibit - A      Statement of Financial Position  
                     as of December 31, 2004, and December 31, 2007
- Exhibit - B      Statement of Operating Results  
                     for the Three-Year Period ended December 31, 2007
- Exhibit - C      Capital and Surplus Account  
                     for the Three-Year Period ended December 31, 2007

## EXHIBIT A

### STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2004 AND DECEMBER 31, 2007

<u>ASSETS</u>	<u>2004</u>	<u>2007</u>	<u>NOTE</u>
Bonds	\$ 8,502,500	\$ 7,385,579	1
Cash & Short Term Investments	972,214	602,105	
Aggregate Write-ins for Invested Assets	168,455	12,556	
Investment Income Due and Accrued	58,824	82,141	
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances	332,467	273,952	
Booked but Deferred and Not Yet Due	4,682	-0-	
Reinsurance:			
Amounts Recoverable From	16,052	4,840	
Funds Held By or Deposited With	-0-	-0-	
Federal and Foreign Income Tax Recoverable	317,289	-0-	
Net Deferred Tax Asset	144,882	43,308	
Receivable from PSA	98,960	24,148	
Aggregate Write-ins (other than invested assets)	52,082	148,276	
<b>Total Admitted Assets</b>	<b>\$ 10,668,407</b>	<b>\$ 8,576,905</b>	
<u>LIABILITIES</u>			
Losses	\$ 3,133,140	\$ 1,828,603	2
Loss Adjustment Expenses	991,158	538,072	
Other Expenses (excluding taxes, licenses, and fees)	49,000	195,405	
Taxes, Licenses and Fees	427,850	-0-	
Current Federal and Foreign Income Taxes	-0-	36,165	
Unearned Premiums	2,130,625	636,887	
Ceded Reinsurance Premiums Payable	99,222	268,376	
Funds Held Under Reinsurance Treaties	-0-	741,226	
Amount Withheld or Retained for Others	28,330	137,170	
<b>Total Liabilities</b>	<b>\$ 6,859,325</b>	<b>\$ 4,381,904</b>	
<u>POLICYHOLDER SURPLUS</u>			
Common Capital Stock	\$ 1,200,000	\$ 1,200,000	
Gross Paid-in and Contributed Surplus	6,141,192	6,141,192	
Unassigned Funds (surplus)	(3,532,110)	(3,146,191)	
<b>Surplus as Regard Policyholders</b>	<b>\$ 3,809,082</b>	<b>\$ 4,195,001</b>	3
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 10,668,407</b>	<b>\$ 8,576,905</b>	

## EXHIBIT B

### STATEMENT OF OPERATING RESULTS FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>UNDERWRITING INCOME</u>			
Premiums Earned	<u>\$ 3,065,893</u>	<u>\$ 1,539,960</u>	<u>\$ 1,004,202</u>
Deductions:			
Losses Incurred	1,083,594	408,579	108,404
Loss Expenses Incurred	893,241	635,517	192,786
Other Underwriting Expenses Incurred	<u>925,663</u>	<u>914,574</u>	<u>792,990</u>
Total Underwriting Deductions	<u>2,902,498</u>	<u>1,958,670</u>	<u>1,094,180</u>
<b>Net Underwriting Gain or (Loss)</b>	<u><b>\$ 163,395</b></u>	<u><b>\$ (418,710)</b></u>	<u><b>\$ (89,978)</b></u>
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	320,638	377,080	349,175
Net Realized Capital Gains/(Losses)	<u>(153,122)</u>	<u>(395)</u>	<u>(12,988)</u>
<b>Net Investment Gain or (Loss)</b>	<u><b>\$ 167,516</b></u>	<u><b>\$ 376,685</b></u>	<u><b>\$ 336,187</b></u>
<u>OTHER INCOME</u>			
Net Gain (Loss) From Agent's or			
Premium Balances Charged Off	<u>(25,777)</u>	<u>(52,535)</u>	<u>24,035</u>
<b>Total Other Income</b>	<u><b>\$ (25,777)</b></u>	<u><b>\$ (52,535)</b></u>	<u><b>\$ 24,035</b></u>
Dividends to Policyholders	-0-	-0-	-0-
Federal and Foreign Income Taxes Incurred	<u>73,988</u>	<u>(81,362)</u>	<u>94,122</u>
<b>Net Income</b>	<u><b>\$ 231,146</b></u>	<u><b>\$ (13,198)</b></u>	<u><b>\$ 176,122</b></u>

## EXHIBIT C

### CAPITAL AND SURPLUS ACCOUNT FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Surplus as Regards Policyholders December 31, Previous Year	<u>\$ 3,902,505</u>	<u>\$ 4,044,591</u>	<u>\$ 4,002,555</u>
Net Income	231,146	(13,198)	176,122
Change in Net Unrealized Capital Gains/(Losses)	-0-	-0-	-0-
Change in Net Deferred Income Tax	(89,060)	(28,838)	16,324
Change in Non-admitted Assets	-0-	-0-	-0-
Change in Provision for Reinsurance	-0-	-0-	-0-
Total Adjustments	<u>\$ (89,060)</u>	<u>\$ (28,838)</u>	<u>\$ 16,324</u>
Change in Surplus for the Year	\$ 142,086	\$ (42,036)	\$ 192,446
Surplus as Regards Policyholders Decemebr 31, Current Year	<u><u>\$ 4,044,591</u></u>	<u><u>\$ 4,002,555</u></u>	<u><u>\$ 4,195,001</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 - Bonds:**

At December 31, 2007, the Company's portfolio consisted of high-grade corporate, U.S. Treasury and U.S. Government Agency bonds and notes, including mortgage-backed (pass-through) securities, held by the Bank of America, N.A., an authorized custodial institution licensed by the Department. As of December 31, 2007, bonds amounted to \$7,385,579 representing approximately 86% of total admitted assets. There were no stock transactions or balances reported during the examination period. All securities were verified by direct confirmation.

Bonds, with the exception of mortgage-backed securities, were valued at amortized cost in accordance with **SSAP No. 26**, *Bonds, excluding Loan-Backed and Structured Securities*, and found to be exempt from filing with the NAIC Securities Valuation Office ("SVO").

### Statutory Deposits

The Company has one statutory deposit with the State of New Jersey held by Commerce Bank, N.A. as of December 31, 2007, for the benefit of policyholders, comprised of the following:

	<u>Par</u> <u>Value</u>	<u>Book</u> <u>Value</u>
US Treasury Bill 0.0% Due 6/26/08	\$ 207,000	\$ 203,864

### **Note 2 - Losses and Loss Adjustment Expenses**

The Company's estimated liabilities at December 31, 2007, for unpaid losses and loss adjustment expenses, net of reinsurance, amounted to \$1,828,603 and \$538,072, respectively. The combined net outstanding loss and loss adjustment expenses represented 54.0% of the Company's liabilities, with IBNR contributing 20.2% towards the total loss reserve.

The Department's Property and Casualty Actuarial Unit performed a comprehensive review and evaluation of the outstanding loss and loss adjustment expense reserves established by AMIC. The review indicated that these liabilities were reasonably stated. Company's 12/31/2007 gross and net loss and loss adjustment expense reserve has been accepted without adjustment".

Examination review of this liability consisted of reconciling and verifying loss data, including salvage and subrogation received, to company actuarial reports and to the 2007 annual statement Schedule P by line of business and by accident year. A statistical sample of paid losses and loss adjustment expenses and outstanding case reserves was selected and traced to actual claim files and to the Company's automated claims management system for verification of certain underlying claim attributes, with no material exceptions noted.

### **Note 3 - Capital and Surplus**

#### **Capital Stock**

The outstanding stock of the Company at December 31, 2007, consisted of 120,000 shares of common stock with a par value of one dollar (\$10.00) per share for a total capital of \$1,200,000.

#### **Surplus as Regards Policyholders**

Total Unassigned Funds (Surplus), as per the examination review, yielded a negative amount of \$(3,146,191), which was \$292,496 more than the amount reported in the last examination. The cumulative changes in capital and surplus during the three-year examination period is reflected and summarized below:

Capital and Surplus December 31, 2004 .....	\$ 3,902,505
Net Income or (Loss) .....	394,070
Change in Net Deferred Income Tax .....	(101,574)
Dividends to Stockholders .....	-0-
Examination Change .....	-0-
<b>Capital and Surplus December 31, 2007 .....</b>	<b><u><u>\$ 4,195,001</u></u></b>

The Company meets the statutorily required minimum capital and surplus balance of \$2,700,000, an excess of \$895,001.

### **SUBSEQUENT EVENTS**

#### **▪ Corporate Records**

Conflict of interest statements and questionnaires applicable to the examination period were for the most part completed, submitted or executed on or about March 2008. However, a review of the Company's 2008 corporate minutes indicated that the Board failed to discuss or evaluate these disclosures to determine the potentiality or presence of material conflicts that may have arisen during the examination period.

It is therefore recommended that the Board thoroughly review, on an annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made part of the Company's corporate minutes.

#### **▪ Holding Company System**

AMIC amended its Insurance Holding Company System Annual Registration Statement on August 20, 2008, to add a new affiliated entity to the updated organizational chart, viz. Old Rock Premium Finance Company, Inc. This company, licensed in the State of New Jersey as of June 18, 2008, was formed to provide premium-financing services to policyholders of American Millennium. It is wholly owned by Edward J. Mallozzi, Vice President and Treasurer of the Company.

In addition, the following companies have been removed from the organizational chart, as these are no longer operational subsequent to the examination period:

American Millennium Warranty of Florida, Inc.  
American Millennium Home Warranty Company, Inc.  
American Millennium Warranty Company of New York, Inc.

## **SUMMARY OF RECOMMENDATIONS**

### **Compliance with Prior Examination Report Recommendations**

- p.7** Territory and Plan of Operation. It was recommended in the last examination and again is reiterated that the Company obtain written contracts between itself and its reinsurance intermediary-brokers in agreement with N.J.S.A. 17:22E-6 and, additionally, Section 6, Part XI, paragraph B of the 2008 NAIC Handbook.
- p.11** Holding Company System. It was recommended in the last examination and again is reiterated that the Company list all affiliated transactions in future filings of Schedule Y Part 2 of the annual statement.

### **Territory and Plan of Operation**

- p.7** It is recommended that the Company execute a contract with its controlling producer in conformity with N.J.S.A. 17:22D-3.
- p.7** It is recommended that the Company comply with N.J.S.A. 17:22E, sections 2 and 9, and utilize the services of authorized reinsurance intermediaries pursuant to section 4 of the statute.

### **Policy on Conflicts of Interest**

- p.13** It is recommended that the Company keep its conflicts of interest current for all its employees, officers, and directors on an annual basis.

### **Continuity of Operations**

- p.15** It is recommended that the Company conduct and document regular Business Continuity Tests, including full restoration of their computer systems and files.

### **Subsequent Events**

- p.22** Corporate Records. It is recommended that the Board thoroughly review, on an annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made part of the Company's corporate minutes.



**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**  
**STATEMENT BY NJDOBI ACTUARY**

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have performed an actuarial review of the reported December 31, 2007 loss and loss adjustment expense reserves for the American Millennium Insurance Company. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

\_\_\_\_\_/S/  
Boris Privman  
Managing Actuary

**CONCLUSION**

The statutory condition examination was conducted by the undersigned with the support of the New Jersey Department of Banking and Insurance field and office staff, at the Company's home office located at 5 Marine View Plaza, Hoboken, NJ 07030.

The courteous assistance and cooperation of the Company's officers, employees and certified public accounting firm is acknowledged.

Respectfully submitted,

\_\_\_\_\_/S/  
Robert Redden  
Department of Banking and Insurance  
State of New Jersey

**AMERICAN MILLENNIUM INSURANCE COMPANY**

I, Robert Redden, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007, to the best of my information, knowledge, and belief.

Respectfully submitted,

/S/  
Robert Redden  
CFE Reviewer  
Department of Banking and Insurance  
State of New Jersey

State of New Jersey  
County of Mercer

Subscribed and sworn to before me, Donna M. Costigan, on this 29<sup>th</sup> day of April, 2009.

/S/  
\_\_\_\_\_  
Donna M. Costigan  
Notary Public of New Jersey

My commission expires: March 7, 2012